

# PROFITABILITY INFLUENCE POLICY AGAINST AGGRESSIVE WORKING CAPITAL IN THE FOOD INDUSTRY AND BEVERAGE REGISTERED IN INDONESIA STOCK EXCHANGE (IDX)

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**Abstract:** *The tendency of urban people meals ready to eat led to increasing new industries in the field of food and beverage. The more the presence of restaurants that provide a wide variety of food and innovation to the food or drink provided by the restaurant. Growth in food and beverage industry that have an impact on increasing the value of shares in the Indonesia Stock Exchange (IDX) is because the sector foods and beverages resulted in a product that is a primary need and have stocks that are most resistant to the economic crisis compared to other sectors because in a crisis situation or not, the majority of food and beverage products still needed by the community. Based on the case has progressed, the purpose of this study was to determine the effect on the profitability of the aggressive policy of working capital in the food and beverage industry companies listed in Indonesia Stock Exchange (IDX) using multivariate analysis using Structural Equation Modeling (SEM). The data used is secondary data obtained from the Indonesia Stock Exchange (IDX), the Financial Services Authority (FSA) or other sources in the form of reports, studies, journals and magazines. The results of the study showed that the profitability of a significant effect on the aggressive policy of working capital. if there was an increase in total profitability of the influence of the aggressive policy of working capital is the change in the proportion of long-term debt, short-term debt and equity capital.*

**Keyword :** *Indonesia stock exchange, structural equation modeling, profitability, aggressive working capital policy*

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## 1 Introduction

The development of business in Indonesia is supported by the development of the capital market. The formation of capital markets has a purpose for the functioning of the economy along with the finance function in the economic system of a country. Investors will expect the profit (return) of the investment that has been done and have ownership rights in the company, and instead of the company obtaining an alternative source of funds without waiting for the availability of funds in the company's operating results. Investment in capital markets may make investors make transactions in the capital market. Investing in stocks is a risky thing, causing a higher rate of profit than the gains from other investments. Food and beverage company is one of the preferred investment alternative investors. Company's food and beverage industry has a pretty good prospect and tend to demand by investors as one of the targets investments. The cause is the result of this industry tends to be favored by the people such as snacks, energy drinks up drinks in containers. Food and beverage company is a category of consumer goods manufacturing industry where the product is highly needed by people, so the prospect benefit both present and future, in addition to the shares of these companies are stocks that are most resistant to the economic crisis than other sectors because of the condition crisis or not the majority of food and beverage products are still required.

Growth in food and beverage industry that have an impact on increasing the value of shares in the Indonesia Stock Exchange (IDX) is because the sector foods and beverages resulted in a product that is a primary need and have stocks that are most resistant to the economic crisis compared to other sectors because in a crisis situation or not, the majority of food and beverage products still needed by the community. Thus attracting a number of investors which in turn have an impact on the value of its shares on the Indonesia Stock Exchange (IDX). The industrial sector of food and drink is one of the most attractive investment targets investors today. Stagnant conditions in the various sectors of industrial, food and beverage businesses have the opportunity for growth and employment opportunities. Related to the above, the presence of food and beverage industry are listed on IDX can trigger a backward and forward linkage to the upstream and downstream business which is a derivative product of food and beverage industry, so a positive impact on business development in the agricultural sector.

Businesses increased profitability tends to increase its operations better than ever, so the company is not only a growth-oriented, but rather to maintain the viability of their business. It is expected to take place continuously in the management of profitability and define a policy that needs to be done with regard to

spending in the company's working capital investment. Brigham and Weston (2005) suggest three working capital financing policy, namely: an aggressive policy (restricted/tight), the policy of moderate and conservative policies (relaxed/loose). Working capital policy that aggressively exploit lower capital costs by using short-term debt that is more than long-term debt with the consequent risk of short-term liquidity despite the relatively lower cost of capital. While the more conservative policy more use of higher cost of capital or use their own capital. Thus the proper working capital policy is indispensable in maintaining smooth operations and profitability of companies so that the company can still survive in the face of competition and generate the expected profit.

## **2 Literature**

### **2.1. Literature Review**

Understanding financial management according to Sonny, S. (2003). Financial management is the activity of companies that deal with how to obtain funds, use of funds, and manages assets in accordance with the company's overall objectives. Financial management by Van Horne (2005), argues that: "all activities or activities related directly to the acquisition, financing and asset management (asset) with the overarching goal". The purpose of financial management with regard to the decision of the financial sector to maximize its value, more broadly this goal is one of the objectives of the company, and therefore the value of the company will be reflected in the market value of its shares.

Theories include in this study is spending company that is a discipline that describes the whole activity of the company aimed at acquiring and using capital in a way that is effective and efficient. A company, for conducting its operational activities certainly have a need for a source of funds as capital. Source of the funding could be obtained from internal and external companies. Sources of funds from internal company obtained through the net retained profits are not used other than for working capital. While external funding sources can be obtained via the capital markets or through the sale of financial assets (bonds, stocks, and loans from banks or other creditors). Sources of funds obtained by not easy and should be used wisely as possible in order to meet operational needs.

Spending has two functions, namely the function of the fulfillment of the financial resource needs and allocation functions or funding. The function of the fulfillment of the source of funds is related to efforts to get the funds as working capital for the company. Whereas to function more focused funding to businesses in case the selection of investment alternatives that can generate profits in the long run. Theory application in this study consists of: profitability and spending policies of the company. The profitability of a company shows a comparison between the earnings or capital assets that generate such profits. In other words, profitability is the ability of a company to achieve profits.

Thus, the purchase of companies or financial management is none other than the management for functions expenditures. Basically it can be said that the function of spending in the company include:

- a. Function Usage Dana (Use/Allocation Of Funds)
- b. The function of the fulfillment of the funds on financing function (financing; obtaining of funds) :
  - 1) Sources Company Intern
  - 2) External Source Company

#### **2.1.1 Understanding and Concepts Financial Ratios**

Financial analysis in holding ratio analysis can basically be done in two ways comparison, namely:

- a. Comparing current ratios with the ratios of times past or ratios were estimated for the times that will come from the same company.
- b. Comparing the ratios of a company with the ratios of one kind of another similar company or industry for the same time.

The intent and purpose of ratio analysis is to provide an assessment of the liquidity, solvency, profitability as well as the activities of a company, so managers can determine the company's financial development, and will be known the results of the ongoing financial planning for the future.

Financial ratio analysis is a tool that is commonly used to determine the financial condition and business development of a company's past, present and future projections related to the company's financial condition. Harahap (2004) suggested that financial ratio analysis is a number derived from the comparison of the financial statement items with more posts that have a relationship that is relevant and significant

(significance). So for the management company can use as a tool monitors and analyzes the company's financial condition from one period to the next.

### 2.1.2 Concept Definition and profitability of the Company

In general, the main purpose of the company is working to be able to reach profitable levels of the financial management of effectively and efficiently. Companies can be said to be profitable if the company concerned is able to manage its resources effectively and efficiently produce the expected profit. The opposite is true of a company does not reach the level of profitable if it is not able to process its resources appropriately in generating profit. Related to the company's ability to produce the level of profitability can be identified through the use of financial ratios as a tool of analysis of corporate financial statements.

In line with the Brigham and Houston (2011) stated that profitability is the net result of a series of policies and decisions. Furthermore Sartono (2001), that: profitability is the ability of the company makes a profit in relation to sales, total assets and own capital. Thus for long-term investors would be very concerned with this profitability analysis.

Some of the common ratios used to measure the profitability of the company, including Sartono (2001) divided into four groups of ratios, namely: the ratio of Profit Margin, Net Profit Margin, Return on Equity, and Return on Investment. More details Sartono suggest the types of these ratios, as follows:

- a. Profit Margin  $= \frac{\text{EBIT}}{\text{Selling}}$
- b. Net Profit Margin  $= \frac{\text{EAT}}{\text{Selling}}$
- c. Return on Equity  $= \frac{\text{EAT}}{\text{Owner's equity}}$
- d. Return on Investment  $= \frac{\text{EAT}}{\text{Total Assets}}$

### 2.1.3 Profitability relationship with the Company Spending Policy

Differences in working capital will bring a different effect on corporate profits. This can occur because of the amount of working capital used in the company with regard to the costs incurred by the use of working capital. Relationship working capital expenditure policy with liquidity, profitability, and risks are described as follows:

- a) Profitability is inversely related to liquidity. While increased liquidity is the cost of declining profitability.
- b) Profitability runs in line with risk. Profitability increases will have an impact on the increased risk, so the company is required to dare to risk obtaining the maximum profit.

Wiksuana et al., (2001) suggested that one of the factors that influence the policy of capital expenditure funding structure is the level of corporate profitability has been achieved. Where Profitability and tax firms with high profitability encourage companies to use smaller debt because the company is able to provide sufficient funds through retained earnings.

### 2.1.4 Factors Affecting Profitability

Munawir (2007), states that "companies that have a larger size have a strong incentive to provide a high level of profitability compared with companies that are smaller. Munawir further stated that there are several factors that influence profitability:

- a. Type of Company
- b. Age Company
- c. Scale Company
- d. Price of Production
- e. Habitat Business
- f. Products are produced

### 2.1.5 Company Working Capital Expenditure Policy

Current assets can be divided into two properties, namely current assets permanent and temporary nature. Permanent current assets are the amount of liquid assets that should remain with the company in the overall business cycle, whereas temporary current assets are the amount of current assets that fluctuate according to seasonal variations (Atmaja, 2002). In the management of these assets that need to be considered by corporate managers are considering the needs of current assets it is a very basic need and are highly volatile. Spend the company in current assets permanent and temporary policy that will differentiate the company's working capital expenditure.

### 2.1.6 Understanding and Working Capital Concepts

Working capital has some of the concepts used for financial analysis. Working capital is indispensable as the bedrock of the company. In connection with the notion of working capital can be put forward several definitions of the concept of the types of working capital. Eiteman and Holtz (2004) suggested that a working capital fund used during the accounting period is intended to generate income current corresponding to the main purpose of the establishment of the company. In this case it can be argued that the working capital effect on direct revenue, the company's operational activities and financial development of the company. Increase or decrease in the liquidity of the company can be seen from working capital, due to the wealth of a company can be measured from the capital.

All parties agreed that working capital is needed to fund day-to-day operations. However, it later became a different sense when associated with the issue of funding. According to J. Fred Weston and Eugene F. Brigham "Working capital is the company's investment in short-term assets such as cash, securities (securities), accounts receivable, and inventory." (Weston, Brigham in Sawir, 2001). Both of these definitions, shows that working capital is the sum of current assets owned by the company. The definition of working capital (working capital) is expressed by Ciaran Walsh (2004), which is "the definition of W/C is current assets minus current liabilities. The most important of that value is the number of daily operating liquidity available to the company. This is illustrated in the following figure:

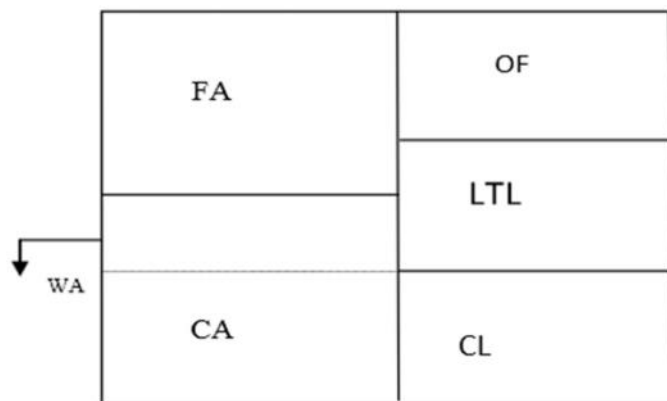


Figure 1. Definition of Working Capital

Source: Walsh (2004)

Description:

- FA = Fixed Assets
- CA = Current Assets
- OF = Owner's Fund
- LTL = Long Term Liabilities
- CL = Current Liabilities
- W/C = Working Capital

This definition states that the working capital is the difference between current assets and current liabilities or so-called net working capital. The concept of Working Capital by Martono (2003), suggests the notion of working capital can be divided according to several concepts, namely:

- a. The concept of quantitative  
Working capital by quantitative concept is the total current assets, also called gross working capital.
- b. Qualitative concept  
In this concept of working capital associated with the amount of debt that must be repaid immediately. Most of the current assets are used to pay off current debts such as accounts payable, taxes payable, and some are actually used to finance the company's operations.
- c. Functional concept  
The basic concept of the funds used function is to obtain income. Each of the funds allocated to the various assets for the purpose of obtaining income, both current income and income of the future. The concept of a functional working capital is a concept of capital used to produce current income.

#### 2.1.7 Types of Working Capital

B. W. Taylor (1990) classify capital into two types, namely:

- a. Permanent Working Capital  
I.e. working capital should remain at the company to be able to conduct business, or continuously working capital required for the smooth running of the business.
- b. Variable Working Capital  
Working capital number fluctuates according to the changing circumstances.

#### 2.1.8 Policies for Determination of Working Capital Financing

Working capital is the capital used to finance the company's daily operations, especially those that have relevance time in the short term, i.e. less than one year. Thus, working capital management is an investment management company in the short-term assets and also how to fund it. Means management of working capital associated with how to manage investments in current assets. Working capital also mean current assets minus current liabilities, is called net working capital. Working capital management involves a large proportion of the company's assets.

#### 2.2. Previous Research

Clarity of direction and originality as well as benefit from a study conducted empirically, showing clearly on the ability of the researchers to scour deeply about some of the findings of previous studies and related to the position of research is done now. Some previous research findings related to the study of profitability analysis and their influence on Price Earnings Ratio and its impact on company spending policies food and beverage industries listed in (IDX) is as follows:

##### a. Putri (2006)

Daughter research examines the influence of the efficiency of working capital on profitability by using simple regression analysis and correlation. The dependent variable is the profitability, measured by ROI, while the independent variable is the turnover of working capital. From the results of the study found that the efficiency of working capital has a significant influence on the profitability of the company. In the sense that the more efficient working capital of a company that can be seen from the turnover of working capital which more quickly, that the company's profitability will be higher.

Equations with this research are to use variable profitability and spending on the company's working capital. While the difference with this study is that the study did not examine the effect of the Price Earnings Ratio of spending policy in working capital. Besides differences in the analysis model used in this study using the analysis simple regression whiles the research to be conducted using Structural Equation Modeling analysis (SEM). The use of SEM analysis is intended to examine the influence of the variable is constructed through the manifest variables (dimension) of each variable.

##### b. Siswantini (2006)

Research conducted Siswantini reviewing the working capital analysis and its influence on the profitability of manufacturing companies in the IDX. The analysis technique used is multiple linear regression analysis (multiple regressions). The variables studied were profitability as the dependent variable measured by basic earnings power. While the independent variable is the velocity of cash, accounts receivable turnover and inventory turnover. From the results of his research found that the

cash turnover negatively affects profitability. In the sense that with the addition of cash turnover will decline in profitability. While the receivables turnover and inventory turnover positive effect on the profitability of the means with the addition of these two variables will increase to profitability.

Equations with this study using a variable profitability and working capital expenditures. While the difference with this study was not examining variables using PER analysis and technical analysis is SEM.

c. Miftah (2006)

Research conducted Miftah analysis examines the use of working capital and its influence on economic profitability. The analysis technique used is simple regression; the dependent variable is economic profitability as measured by ROA. While the independent variable is working capital turnover. From the research found that the analysis of working capital had a significant influence on the economic profitability of the company, where the association is positive in the sense that the more efficient use of working capital, the economic profitability of the company will increase. Equations with this study are to assess the profitability variable. While the difference with this study did not examine the PER and the aggressive policy of working capital. The other difference is not using SEM analysis.

### 3 Methods

The method used in this study included in survey research to reveal the facts of a phenomenon that can be evaluated based on a review of theoretical as well as a wide range of previous studies. The type of data collected is secondary data, quantitative-value ratios derived from the financial statements of the food and beverage industry companies listed in Indonesia Stock Exchange (IDX) in the last 5 years (2008 to 2013).

The study design grouped into descriptive analysis to provide an overview of data relating to the distribution of profitability and corporate policies that are based on moderate policies, aggressive and conservative undertaken by the food and beverage industry companies listed on IDX. Furthermore, multivariate analysis using Structural Equation Modeling (SEM). This analysis aims to answer the research hypothesis that is verification with a view to explain the causal relationship between these variables and test hypotheses.

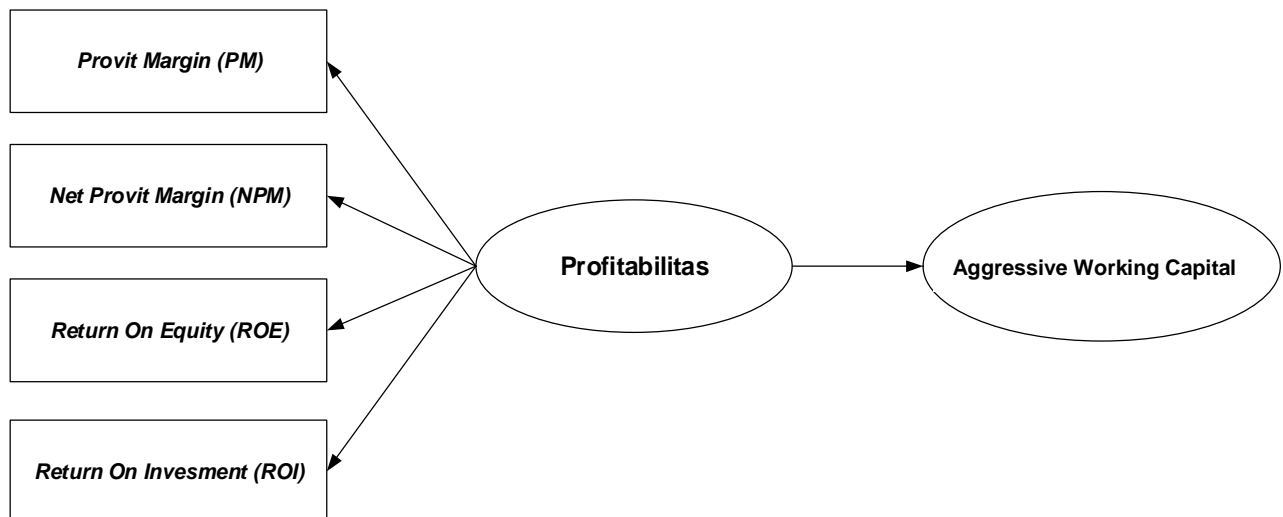


Figure 2. Conceptual Framework Chart

### 4 Result

#### 1. Testing Assumptions SEM

Test assumptions in the SEM are used for the fulfillment of the terms of use SEM. The assumptions used include the assumptions of normality and assumptions outliers. Results of testing the assumptions presented below.

#### 4.1.1 Normality Assumption

Data normality test is used as a condition to process the data using the estimation method Maximum Likelihood (ML). Fulfillment of normality can avoid bias and inefficiency results. Normality test was measured using the criteria of the critical ratio of  $\pm 2.58$  at a significance level of 1% (0.01).

**Table 1.** Assumptions Normality Test Results

Variable	Min	Max	Skew	C.R.	Kurtosis	C.R.
Aggressive	1.000	4.000	.750	4.624	-.264	-.813
PM	1.000	5.000	.274	1.692	-1.371	-4.225
NPM	1.000	5.000	.359	2.212	-1.057	-3.258
ROE	1.000	5.000	.708	4.362	-.531	-1.637
ROI	1.000	5.000	.779	4.803	-.626	-1.929
Multivariate					2.231	2.013

Source: Research Data Processed (2016)

The test results demonstrate the value of C.R Multivariate normality of 2,013 and is located between the values  $\pm 2.58$  until  $\pm 2.58$  so that multivariate it can be said that the normality assumption is met.

#### 4.1.2. Assumptions Outliers

Outliers are a unique observation, in which the characteristics differ greatly from the observations of others. Outliers can be detected from the extreme values that emerge from the overall total observations. One outlier Univariate evaluation is to determine a threshold value that would be categorized as outliers by converting the value of research data into standard values, and outliers in multivariate evaluation using *Mahalanobis* distance for each observation. *Mahalanobis* distance shows the distance from the observation of the average of all the variables in a multidimensional space. The criteria used by Chi-Square value freedom degree program (degree of freedom) and in particular the significance level (alpha) specific.

**Table 2.** Results of Test assumptions Outliers

Observation Number	Mahalanobis d-Squared	p1	p2
193	17.732	.003	.530
112	17.358	.004	.221
111	15.958	.007	.213
114	15.958	.007	.076
77	15.768	.008	.030
58	14.614	.012	.061
80	12.971	.024	.296
92	12.759	.026	.236
36	12.244	.032	.296
17	12.103	.033	.234

Source: Research Data Processed (2016)

The test results demonstrate the value of Mahalanobis assuming outliers are small so there were no outliers in the data outlier's research so assumptions are met.

## 2. Confirmatory Factor Analysis

Confirmatory analysis aims to ensure that the indicators used properly define the latent variables are observed, where the value of the loading factor greater than 0.5 indicates that the indicators were eligible for use in the model SEM. Profitability variables there are four indicators, namely Profit Margin (PM), Net Profit Margin (NPM), Return on Equity (ROE) and Return On Investment (ROI). The test results of confirmatory factor analysis are presented below.

**Table 3.** Results of Factor Analysis

		Estimate	S.E.	C.R.	P	Label
ROI	← Profitability	.933	.240	7.054	***	par_1
ROE	← Profitability	.631	.160	6.733	***	par_2
NPM	← Profitability	.602	.160	6.558	***	par_3
PM	← Profitability	.507				

Source: Research Data Processed (2016)

Results of confirmatory factor analysis to Profitability shows the value of the loading factor of more than 0.500 and less than 0,050 significance values so that all indicators Profitability is valid and can be used later in the process.

### 3. Goodness of Fit Model

Testing Goodness of Fit models used to test the feasibility SEM models for use in testing the hypothesis described in the study. Goodness of fit is used, among others, the value of Chi-Square and the p-value, the value of GFI and AGFI, RMSEA value, and the value of TLI and CFI.

**Tabel 4.** Results Goodness of Fit

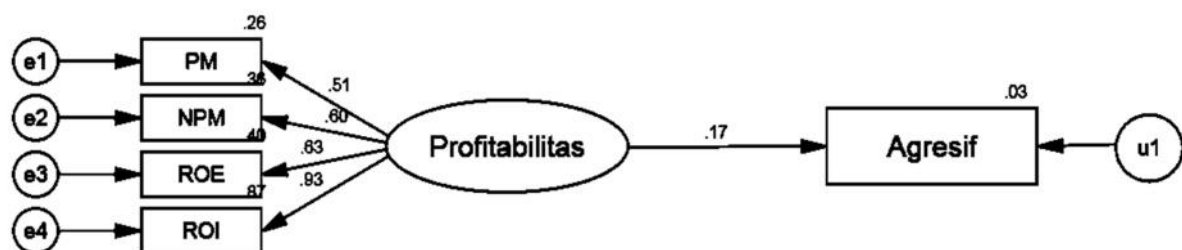
	Test results	Criteria	Description
CMIN	4.220	Kecil	Marginal Fit
P-Value	0.040	> 0.050	Marginal Fit
CMIN/DF	4.220	< 5.000	Good Fit
GFI	0.993	> 0.900	Good Fit
AGFI	0.890	> 0.900	Marginal Fit
NFI	0.986	> 0.950	Good Fit
TLI	0.890	> 0.950	Marginal Fit
CFI	0.989	> 0.950	Good Fit
RMSEA	0.119	< 0.080	Marginal Fit

Source: Research Data Processed (2016)

Goodness of Fit test results show nearly all the test criteria meet the set value, so that the model can be used SEM.

### 4. Hypothesis Testing

Based on the results of statistical tests have been used, all hypotheses are tested to meet the requirements or can be used as a measurement model in the study. Based on the results of hypothesis testing, presented the following results.



**Figure 3.** SEM Model

Source: Research Data Processed (2016)

The test results influence the profitability of the aggressive policy values obtained  $t_{\text{statistik}} 2,334$  more than the value of  $1.960 t_{\text{table}}$  so that there is significant influence between the profitability of the aggressive policy. The

coefficient of influence between the profitability of the aggressive policy of 0168 showed a positive effect, it means increased profitability will significantly increase the company's aggressive policy.

## 5. Discussion

Differences in the use of working capital policy will bring a different effect on corporate profits. This can occur because of the amount of working capital used in the company with regard to the costs incurred by the use of working capital. Relations with the aggressive policy of working capital profitability are run in line with risk. Profitability increases will have an impact on the increased risk, so the company is required to dare to risk obtaining the maximum profit. The results showed that the profitability of influence on the policy of aggressive working capital. This indicates that the most aggressive of a company in the funding it will provide greater profits and companies with the big advantage will increase the company's value in the eyes of the public and investors.

This is in line with the theory put forward by Wiksuana, et al (2001: 201) argues that one of the factors that influence the policy of capital expenditure funding structure is the level of corporate profitability has been achieved. Where high profitability encourages companies to use smaller debt because the company is able to provide sufficient funds through retained earnings.

## 6. Conclusion

Based on the analysis and discussion that has been done, then the conclusion can be drawn from this study is a significant effect on the profitability of the Working Capital Aggressive policy. If there was an increase in total profitability of the influence of the aggressive policy of working capital is the change in the proportion of long-term debt, short-term Debt and Equity. This can happen because the number of aggressive working capital used by the company with regard to the costs incurred by the use of working capital.

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